



February 1, 2012

Richard Mednick
Region 10
U.S. Environmental Protection Agency (EPA)
Office of Regional Counsel
1200 Sixth Avenue
Seattle, WA 98101

**Re: Avery Landing Site
Docket No. CERCLA-10-2008-0135
Settlement Discussion Subject to FRE 408**

Dear Richard:

As you know we have been involved in settlement negotiations with EPA for the past few months to resolve Potlatch's potential liability under CERCLA, the Clean Water Act and the Oil Pollution Act at the subject site. The purpose of this letter is to provide you with some information with a view toward resolving this matter without further litigation. The information being provided to you herein is being given in the context of settlement negotiations. Nothing in this letter should be construed to be a waiver of any of Potlatch's rights and remedies or an admission of liability. Further, in accordance with Rule 408 of the Federal Rules of Evidence and applicable state law, this letter and the information provided in connection herewith should not be offered into evidence for any purpose.

As we discussed this morning, I would be willing to recommend that Potlatch sign a settlement agreement pursuant to which Potlatch would agree to fund a share of a remediation of the entire site by the EPA with the following terms:

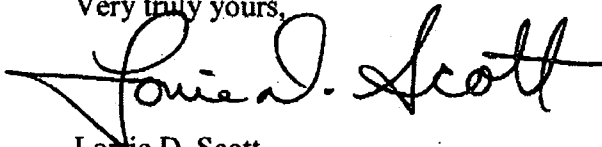
1. Potlatch would pay 50% of mobilization, demobilization and general overhead applicable to the entire site and 100% of direct costs related to removal of contamination on Potlatch property, it being understood that EPA and FHA would be responsible for 100% of the direct costs associated with removal of contamination on the Bencik and FHA properties;
2. If Potlatch is required to deposit funds in escrow prior to commencement of the project, EPA would refund to Potlatch any excess funds remaining in escrow upon completion of the project;
3. Potlatch would have the right to audit project costs upon completion of the 2012 work;



4. Potlatch would have the right to review and comment on the remediation and monitoring plan for the site and to have a representative present at the site during remediation;
5. The settlement agreement would address only 2012 work and subsequent groundwater monitoring, and any other matters such as continuation of work beyond 2012, additional remediation, river bank and bed remediation or similar matters would be addressed separately;
6. Potlatch would not be responsible for conducting any subsequent groundwater monitoring;
7. EPA agrees to provide a prospective purchaser agreement to any future acquirer of Potlatch property; and
8. Neither Potlatch nor the EPA would waive any rights (including without limitation in the case of Potlatch, any rights to seek reimbursement of costs under the principles articulated in *Burlington Northern and Santa Fe Ry. Co. v. United States*, 29 S. Ct. 1870 (2009)), it being understood that following completion of the project in 2012, Potlatch and EPA would enter into good faith negotiations regarding a consent decree that includes, without limitation, a covenant not to sue for the past and future response costs at the Site outside of Potlatch's property and contribution protection consistent with Sections 113 and 122(f) of CERCLA.

We look forward to continued productive discussions with EPA to resolve this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lorrie D. Scott". The signature is fluid and cursive, with a large initial "L" and "S".

Lorrie D. Scott

Vice President, General Counsel & Corporate Secretary